

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

MAIL PROCESSING NETWORK RATIONALIZATION
SERVICE CHANGES, 2011

Docket No. N2012-1

**REVISED RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS DAVID WILLIAMS
TO QUESTION 2 OF PRESIDING OFFICER'S INFORMATION REQUEST NO.5
[ERRATA]**

The United States Postal Service hereby files the revised response of witness David Williams to the above-listed Question from Presiding Officer's Information Request. The original response was filed on March 19, 2012. It is superseded by the revised response filed today. On page 2, in first line of the second paragraph, the word "he" has been corrected read "the". On page 7, the "stray phrase "Express Mail and Priority Mail" should be eliminated. These corrections appear in the revised response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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2. Please discuss how the revised service standards under the Postal Service proposal will achieve the objectives of 39 U.S.C. § 3691(b)(1), and how the Postal Service took into account the factors of 39 U.S.C. § 3691(c) in the revision of the service standards. Please include references to further discussion of these objectives and factors where they appear in the Postal Service's Request and testimony, as appropriate.

RESPONSE

The Postal Service initiated a notice and comment rulemaking (76 *Fed. Reg.* 77942, December 15, 2011) in which it proposed changes to the service standards, in 39 C.F.R. § 121, that form the core of the service changes under review in this docket. I am not a lawyer, but I have been aware from the outset of this initiative that title 39 of the United States Code directs the Postal Service to maintain market dominant service standards designed to achieve certain objectives listed in section 3691(b), after taking into account various considerations listed in section 3691(c), other policies in title 39 and such other factors as it deems appropriate. The rulemaking comment period concluded on February 13, 2012. The Postal Service currently is analyzing the comments received in that rulemaking and expects to publish a Federal Register notice by mid-April that:

- (1) announces changes to the service standards in 39 C.F.R. § 121;
- (2) summarizes its review of the considerations listed in section 3691(c);
- (3) identifies any changes to 39 C.F.R. § 121 that it intends to adopt;
- (4) explains how the resulting service standards are designed to achieve the objectives of section 3691(b); and
- (5) specifies the date on which any changes will be implemented.

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It bears emphasizing that the rulemaking deliberation process is ongoing and that service standard changes that may ultimately emerge at the conclusion of the rulemaking have not yet been determined. In that sense it is too early to answer this question definitively as the process is still unfolding.

As summarized below, the objectives and factors listed in section 3691 influenced the development of the service standard changes proposed in the rulemaking that also are under review in this docket. The Postal Service developed the proposed rules after consideration of comments received in response to the September 21, 2011 Advance Notice of Proposed Rulemaking (76 *Fed. Reg.* 58433), as well as the market research underlying the testimony by witness Elmore-Yalch (USPS-T-11) and the volume impact analysis presented by witness Whiteman (USPS-T-12).

3691(c)(1-3): Actual level of service that Postal Service customers receive, degree of customer satisfaction, customer needs.

The Postal Service utilizes measurement systems reviewed and approved by the Commission in previous dockets to monitor constantly the level of service it provides to customers who use its market dominant products. The Postal Service also monitors service standard achievement levels constantly as measured by various systems designed for those purposes, and took into account past service standard achievement while determining the service standard revisions that it would propose in the current rulemaking. The Postal Service also measures customer satisfaction and reviewed that available data as it developed the service standard proposals in the rulemaking.

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Before initiating the current rulemaking, the Postal Service solicited general public comment regarding the prospect of service standard changes in the aforementioned September 2011 Advance Notice of Proposed Rulemaking.

The Postal Service commissioned extensive market research to gauge household and business mailer reaction to the service changes under review in this docket. See USPS-T-11 and USPS-T-12. In addition, the Postal Service informally solicited feedback from mailing industry representatives. USPS-T-13 at 4. To the extent that the information gathered through these processes sheds light on the needs of postal customers, including those with physical impairments, it was considered during the development of the proposed rules.

3691(c)(4, 6): Mail volume and revenues projected for future years; current and projected future cost of serving Postal Service customers.

As reflected at pages 2-10 of USPS-T-2, the Postal Service considered mail volume and revenues projected for future years in determining to pursue the operational changes underlying the service standard changes under review. Changes in technology, demographics and population affect the use of the mails in ways that contribute to the sharp decline in overall mail volume experienced over the past five years and projected to continue into the future. This has contributed to revenue declines that continue to outpace cost reductions significantly, requiring the Postal Service to explore ways, even changes in service, that bend the cost curve more in the direction of declining revenue. USPS-T-2.

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3691(c)(5): Projected growth in the number of addresses the Postal Service will serve in future years.

Although no changes to the manner of delivery service are proposed, continuing growth in the number of delivery points is a consistent phenomenon that requires constant attention by postal management. The steady increase in delivery points over time has an impact on overall postal operating costs and exacerbates the gap between overall costs and revenues, increasing the pressure to examine measures that can help to close that gap, including the initiative under review in this docket.

3691(c)(7): Effect of changes in technology, demographics, and population distribution on efficient and reliable operation of the postal system.

The service standard changes under consideration in the rulemaking are motivated by the urgent need to ensure that the Postal Service operates more efficiently and moves in the direction of financial stability sufficiently to ensure that it can provide service in a reliable manner. Current mail processing network nodes were established over many decades in response to mail volume growth that was driven by local demographic and population trends, even as mail processing technology evolved to become very efficient. Because First-Class Mail volumes have since declined, the Postal Service now has considerable excess mail processing capacity, a condition which will persist under current service standards. USPS-T-1 at 4-5.

3691(c)(8): Other polices of title 39

3661(a) -- adequate and efficient service

Before proposing service standard changes in December 2011, the Postal Service was mindful that significant network consolidation could result in more efficient

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service, but that the remaining service still had to be adequate, as required by section 3661(a). The Postal Service is reviewing the comments received in the ongoing rulemaking to ensure that its final decisions result in adequate service, given its intent to make operational changes that significantly reduce costs.

403(c) -- undue discrimination

The proposed service standards introduce a distinction between Single-Piece and Presorted First-Class Mail, preserving an overnight service standard for some intra-Sectional Center Facility Presort but not for any Single-Piece. Putting aside that some Presort and Single-Piece not subject to an overnight standard will still experience overnight delivery in the future network, USPS-T-1 and USPS-T-4 explain that the plan to initiate Delivery Point Sequencing much earlier than is currently the case and the planned continuation of existing single-piece collection mail policies will constrain the Postal Service's ability to induct Single-Piece mail into DPS processing in the future network in time for delivery the day after it enters the mail stream. The resulting distinction between some intra-SCF Presort and all Single-Piece intra-SCF First-Class Mail in the proposed future network has a compelling and reasonable operational basis, consistent with the requirement that discrimination not be unreasonable or undue. The proposed changes in Periodicals service standards are consistent with the logical policy that such mail not be given preference over First-Class Mail. USPS-T-1 at 22. Other changes to service standards for Periodicals and Standard Mail to and from origins and destinations not within the contiguous United States are intended to be more consistent with applicable surface and air transportation realities. *Id.* at 27.

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403(b)(3) -- ready access

Mail processing plants are not a principal source of induction for single-piece First-Class Mail into the postal system. The proposed elimination of mail processing operations at more than 200 of them is an efficient and economical measure, but is not expected to affect access to retail services currently provided at those locations, meaning that customers will continue to have approximately 30,000 locations at which mail can readily be inducted, at which Post Office Box units would be located, and at which other retail services would be readily available. The proposed post-consolidation policy of continuing to operate Business Mail Entry Units at their current locations or in close proximity thereto (USPS-T-7 at 4) will minimize the changes in mail induction that bulk mailers will experience in the future network. Accordingly, the proposed changes reflect consideration of the obligation to preserve ready access to service.

101(e-f) -- overnight delivery of important letter mail

The Postal Service established Express Mail and redesigned Priority Mail to include lighter-weight and letter-shaped pieces, to create channels for the most expeditious delivery of letters that senders value as important relative to regular letters. The Postal Service is proposing to preserve overnight delivery as a feature of Express Mail and Priority Mail, which will be supplemented by an overnight delivery standard for some Presort First-Class Mail. Under the proposed service changes, a range of options for expeditious delivery of letters that senders deem important will continue.

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101(f) --prompt and economical transportation

USPS-T-6 explains how the Postal Service has considered promptness and economy in determining the transportation modes that will be utilized to pursue achievement of proposed service standards. By not changing the Express Mail and Priority Mail service standard day ranges, and preserving an overnight delivery standard for some First-Class Mail, the proposed service standard changes are consistent with the requirement in section 101(e) that the most expeditious collection, transportation and delivery be made available for important letter mail.

101(b) -- rural customers

The proposed changes do not distinguish among customers based on whether they reside in rural areas, communities and small towns, or whether their local Post Office is self-sustaining, thereby preserving effective and regular service to such areas.

101(a) -- Promptness, efficiency and binding the nation together

. Promptness, reliability and efficiency of service were considered in determining the nature of the proposed service standard changes. The Postal Service believes that the proposed changes promote efficiency and preserve a range of service options that reflect varying levels of promptness designed to meet the general needs of the mailing public overall. In considering what changes to propose, the Postal Service also was mindful of its obligation to bind the nation together through its various types of written

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correspondence. All of its current delivery service options will continue to be available in the new network to accomplish that goal.

3691(b)(1)(D) and (b)(2): Service measurement

Previous Postal Regulatory Commission dockets have resulted in the development of a system of market-dominant product performance measurement systems. Changes to those systems are not at issue in this docket.

3691(b)(1)(C): Frequency, reliability and speed

The proposed service standard changes do not affect delivery frequency or reliability. The service standard changes that emerge for specific ZIP Code pairs will affect speed of delivery for certain products, as measured in terms of time in transit from origin to destination. The proposed standards thus reflect reasonable levels of speed that, in keeping with best business practices, strike a balance between responsiveness to customer preferences and the need to control costs that affect prices customers are willing or required to pay.

3691(b)(1)(B): Rural access

The proposed service standards changes are universal in their application and, in and of themselves, would not diminish access to postal services in any communities, rural or otherwise.

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3691(b)(1)(A): Value of service

A proposal to implement an operational and service standard change resulting in slower delivery can be understood as enhancing the value of a service, when that change, if implemented, contributes to the financial stability of the service provider, helps to reduce its long-term costs, and improves its ability to operate and reliably provide service in the future.

As it considers the public comments responding to the service standard changes proposed in its December 15, 2011 *Federal Register* notice, the Postal Service will reflect upon these factors and objectives in determining what changes to 39 C.F.R. § 121 to announce and implement.